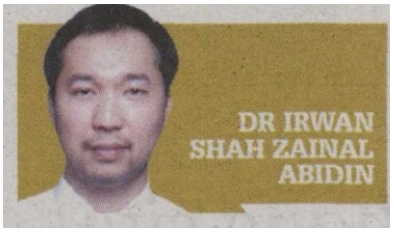
Headline	We are not heading for a recession		
MediaTitle	New Straits Times		
Date	30 Dec 2016	Language	English
Circulation	74,711	Readership	240,000
Section	Local News	Color	Full Color
Page No	17	ArticleSize	485 cm²
AdValue	RM 16,654	PR Value	RM 49,962

We are not heading for a recession

STRONG: The World Bank forecasts the Malaysian economy will grow between 4.3pc and 4.5pc in next two years



IT has been a roller-coaster ride for Malaysia's financial and economic developments this year. Many factors have contributed to these ups and downs — internal and external, economic and non-economic — all of which have triggered jitters and cautious acts in the markets. These include Britain's vote to exit the European Union (Brexit) and Donald Trump winning the United States presidential elections. Uncertainty and volatility appear to be, once again, the order of the day for the rest of 2016.

Essentially, predicting what is going to happen in 2017 seems more difficult than ever. But, one thing is clear — the Malaysian economy is not heading for a recession.

Since 2012, doomsayers have confidently predicted that. Some even said this would happen either next year or in 2018. But, truth be told, the statistics have spoken, and there is no evidence to infer that the economy is on the verge of a recession or crisis. On the contrary, economic data indicate that the economy has bottomed out this year, and next year, we can expect an upward trend, albeit at a slower pace.

What is a recession? There has been much talk about it, especially among keyboard warriors, who are neither economists nor businessmen. In economics, a recession occurs when the gross domestic product (GDP) contracts for two consecutive quarters. In other words, it occurs when the economy is not growing for two quarters in a row. And, when that happens, unemployment will soar and inflation will mount. Hence, this leads the economy into a recession, and when this prolongs, the situation may be transformed into a crisis and, worse still, a depression. Indeed, just because the Malaysian economy had experienced a crisis in the 1980s, 1990s and in 2008, that does not mean that we will face one this decade.

The World Bank forecasted that the Malaysian economy would grow at 4.2 per cent this year and, in due course, improve to 4.3 per cent and 4.5 per cent in 2017 and 2018 respectively. Yes, cost of living is rising in Malaysia, but it is also the same in other countries. How do you measure cost of living? Perhaps the closest way would be by looking at inflation. After the peak in early 2016, Malaysia's headline inflation went down and stood at 1.4 per cent as of October. This is a stark difference when Malaysia experienced a crisis in 1998 and 2008, where the inflation rates were above five per cent. The government is trying its best to address this. Clearly, in the 11th Malaysia Plan (11MP) and the past few budgets, the Bottom 40 (B40) and the Middle 40 (M40) groups have been given priority. In fact, the focus on affordable housing schemes and public transportation is the fundamental solution to this issue. The improvement in wages is another. While the government has done its part to introduce and increase the minimum wage policy, it is up to the private sector to follow suit as well. For a start, why not increase the starting salary of fresh graduates that has remained stagnant for many years?

It is blatantly wrong to believe that the rise in cost of living is due to economic policies, such as the "abolishment" of subsidies. First of all, the government did not abolish subsidies. Subsidies were rationalised so that they are targeted at focus groups rather than a blanket one, which was the practice in the past.

Targeted subsidies, in the form of the 1Malaysia People's Aid (BR1M), despite its setbacks, have proven to be more effective than the practice of a blanket subsidy, which is not only ineffective and unsustainable, but also benefited the rich more than the poor. And, BR1M is not corruption; it is an economic measure to assist the needy.

Now, on the unemployment rate in Malaysia. For this year and next, unemployment is projected to be in the full employment category, at the range of three to 3.5 per cent. Until September, there was little evidence to suggest a broad-based retrenchment in the private sector except for some industries, such as oil and gas. Perhaps, the main issue here is youth unemployment. Hence, the digital economy is a platform for a long-term solution.

If the economic fundamentals are solid, why does our currency depreciate to a new low of 4.47 against the greenback at the end of November? The weakening of the ringgit by itself is not an indication that the economy is in bad shape, just as the strengthening of a currency is not necessarily an indication that the economy in good shape. Japan is a good example. Some even argue that the high public debt level is manifestation of weak economic fundamentals. But, again, we have to remember that the debt to GDP ratio of Malaysia is below 55 per cent. And, the fact the government is committed to carrying out fiscal consolidation while, at the same time, not compromising the growth rate momentum, should be a great example that our economic fundamentals remain intact.

Moving into the New Year, with the continuation of sound macroeconomic management and structural reforms, which started since 2010, Malaysia's economic fundamentals are expected to remain solid next year. This will, no doubt, help the economy to weather yet another global economic headwind.

Happy New Year, everyone!

irwanshah81@yahoo.com

The writer is the director of the Asian Research Institute of Banking and Finance, Universiti Utara Malaysia

Headline	We are not heading for a recession		
MediaTitle	New Straits Times		
Date	30 Dec 2016	Language	English
Circulation	74,711	Readership	240,000
Section	Local News	Color	Full Color
Page No	17	ArticleSize	485 cm²
AdValue	RM 16,654	PR Value	RM 49,962

“**Indeed, just because the Malaysian economy had experienced a crisis in the 1980s, 1990s and in 2008,** *that does not mean that we will face one this decade.*

Bursa Malaysia in Kuala Lumpur. ***Malaysia's economic fundamentals*** *are expected to* ***remain solid*** *next year.*